

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10  
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 USIA-06  
AID-05 EB-08 TRSE-00 STR-07 OMB-01 CEA-01 COME-00  
FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 DOE-11 SOE-02  
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R 232339Z FEB 78  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC 6427  
INFO AMEMBASSY PARIS  
AMCONSUL MONTREAL  
ALL OTHER CONGENS IN CANADA POUCH

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PARIS FOR USOECD

DEPT. PASS TREAS, CEA, FRB

E.O. 11652:N/A  
TAGS: ECON, EIND, CA  
SUBJECT: CANADIAN ECONOMIC SUMMIT: POST MORTEM

REF: OTTAWA 777.

1. SUMMARY. CANADIAN OFFICIALS REGARD ECONOMIC SUMMIT OF FIRST MINISTERS AS QUALIFIED SUCCESS. POSITIVE, COOPERATIVE SPIRIT IN MEETING CANADA'S ECONOMIC PROBLEMS WAS HELPFUL, EVEN THOUGH OUTCOME WAS SHORT ON SPECIFICS. CONSERVATIVE CASTE OF MANY STATEMENTS WAS WELCOMED BY OFFICIALS AS INDICATION OF SHARED DESIRE TO HOLD DOWN PUBLIC SECTOR GROWTH AND WAGES, BUT FEDERAL HOPES WERE DASHED THAT PROVINCES WOULD PROVIDE FURTHER STIMULUS TO THE ECONOMY THIS YEAR.

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2. FIRST MINISTERS DELETED MOST REFERENCES TO PROPOSED FOLLOW-UP ON FEDERAL/PROVINCIAL WORKING GROUP, BUT IN FACT FEDERAL OFFICIALS EXPECT CONSIDERABLE WORK WILL BE DONE OVER NEXT EIGHT MONTHS IN DEFINING PROBLEMS AND MAKING PROPOSALS PRIOR TO NEXT SCHEDULED ECONOMIC SUMMIT IN NOVEMBER. NOVEMBER MEETING WILL BE PRECEDED BY FIRST MINISTERS

MEETING ON CONSTITUTIONAL ISSUES IN SEPTEMBER. NATURE OF POST-WAGE AND PRICE CONTROL MONITORING IS AS YET UNCLEAR. SECTORAL STUDIES ARE TO CONTINUE. END SUMMARY.

3. GOC OFFICIALS BELIEVE FEDERAL/PROVINCIAL MEETING OF FIRST MINISTERS ON ECONOMIC ISSUES (ECONOMIC SUMMIT) WAS IMPORTANT FIRST STEP IN GETTING PROVINCES TO FOCUS ON NATIONAL ECONOMIC ISSUES AND BRING ABOUT MORE COMPREHENSIVE APPROACH TO PROBLEMS. PROVINCES TOGETHER HAVE FISCAL IMPACT ROUGHLY EQUAL TO THAT OF FEDERAL GOVERNMENT. THEY PLAY KEY ROLE IN ANTI-INFLATION POLICY EFFORTS SUCH AS HOLDING BACK RATES OF INCREASE IN PUBLIC SECTOR COMPENSATION AND ADJUSTMENT OF GOVERNMENT REGULATIONS TO INCREASE PRODUCTIVITY AND INVESTMENT INCENTIVES. DESPITE TRADITIONAL REGIONAL DIFFERENCES ON ISSUES, SUCH AS TRANSPORT SUBSIDIES AND COMMON DESIRE FOR MORE FEDERAL SPENDING ON NEW INVESTMENT PROJECTS, OTTAWA OFFICIALS BELIEVE THERE IS NOW GREATER WILLINGNESS FOR FEDERAL AND PROVINCIAL GOVERNMENTS TO ADDRESS COMMON PROBLEMS, EVEN THOUGH FEW SPECIFIC MEASURES WERE AGREED UPON AT THE MEETING, AND PRECISE NATURE OF THE ONGOING CONSULTATIVE PROCESS WAS LEFT LARGELY UNCLEAR.

4. SHORT TERM MACRO POLICY. FEDERAL OFFICIALS HAD HOPED THAT SOME MOVEMENT TOWARDS A MORE EXPANSIONARY FISCAL POLICY BY THE PROVINCES MIGHT BE AGREED AT THE SUMMIT. LIMITED OFFICIAL USE

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AGGREGATE PROVINCIAL BALANCE SHEETS ARE NOW STRONGER THAN FEDERAL GOVERNMENTS' (WITH DEFICITS OF 0.1 AND 3.5 PERCENT OF GNP, RESPECTIVELY, IN 1977), GIVING PROVINCES GREATER ROOM TO UNDERTAKE FURTHER FISCAL STIMULUS. FEDERAL HOPES WERE DASHED BY AN OUTPOURING OF CONSERVATIVE SENTIMENT BY PREMIERS WEST OF THE OTTAWA RIVER WHO ARE FIRMLY AGAINST INCREASES IN BUDGET DEFICITS. ONE OFFICIAL FROM THE FEDERAL DEPARTMENT OF FINANCE SUGGESTED THIS MEANT THAT ECONOMIC EXPANSION OVER "NEXT 12 TO 15 MONTHS" WOULD REMAIN WEAKER THAN DESIRED. (HIS COMMENT FURTHER CALLS INTO QUESTION STATEMENTS BY CHRETIEN THAT CANADA WILL ACHIEVE FIVE PERCENT GROWTH IN 1978).

5. MONITORING AGENCY. GOC PROPOSED LAST SUMMER (A) A MONITORING AGENCY TO TRACK WAGE AND PRICE DEVELOPMENTS AFTER CONTROLS ARE LIFTED AND (B) A MULTIPARTITE CONSULTATIVE GROUP. LABOR GROUPS REFUSED TO TAKE PART IN CONSULTATIONS -- WHICH CARRIED WITH THEM STRONG INJUNCTIONS TO HOLD DOWN WAGE DEMANDS -- AND BUSINESS GROUPS OPPOSED ANY MONITORING AGENCY WITH TEETH TO REQUIRE DATA OR JUSTIFICATION OF PRICE INCREASES. AT ECONOMIC SUMMIT, A WATERED DOWN VERSION OF THE MONITORING AGENCY PROPOSED BY FINANCE MINIS-

TER CHRETIEN WAS REJECTED BY THE PROVINCIAL PREMIERS. IT  
WAS DECIDED INSTEAD TO "ASK" THE ECONOMIC COUNCIL OF CANADA  
WHETHER IT WOULD PREPARE STUDIES ON WAGE AND PRICE DEVEL-  
OPMENTS. THE COUNCIL'S NEW CHAIRMAN, SYLVIA OSTRY, WILL  
REPORT TO THE PRIME MINISTER WHETHER SUCH STUDIES WOULD  
FIT INTO THE MANDATE AND RESOURCES AVAILABLE TO THE COUN-  
CIL. WITH ITS EMPHASIS ON PUBLIC EDUCATION, MEDIUM TERM  
AND STRUCTURAL ANALYSIS OF THE ECONOMY, THE ABILITY OF THE  
ECONOMIC COUNCIL TO EXERT MUCH PRESSURE ON SPECIFIC SEC-  
TORS, FIRMS, OR UNIONS SEEMS SEVERELY LIMITED. FEDERAL  
OFFICIALS ASSERT IN ANY CASE THERE WILL BE SOME KIND OF  
MONITORING FUNCTION AFTER CONTROLS BEGIN TO BE REMOVED  
APRIL 14. SOME HINT THEY WOULD PREFER ECONOMIC COUNCIL  
TO ESCHEW MONITORING FUNCTION SO THAT GOC COULD, UNI-  
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LATERALLY IF NECESSARY, SET UP DISTINCT AGENCY. IN ANY

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R 232339Z FEB 78

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CASE, THE OUTLOOK FOR AN AGENCY WITH MANY TEETH DOES NOT  
APPEAR GOOD.

6. CONSULTATIONS WITH LABOR. CANADIAN LABOR CONGRESS (CLC) HEAD JOE MORRIS SENT A LETTER TO LABOR MINISTER MONROE DURING THE SUMMIT INDICATING SOME WILLINGNESS NOW TO CONSIDER A CONSULTATIVE ROLE FOR LABOR IN THE POST-CONTROL PERIOD. EXACT ROLE IS UNCLEAR. IT IS FURTHER CLOUDED BY A CLC MEETING IN MARCH WHICH IS EXPECTED TO ELECT NEW LEADERSHIP. WHILE MORRIS' INITIATIVE IS AN ENCOURAGING SIGN, THE DEGREE OF COOPERATION THAT CAN BE EXPECTED FROM ORGANIZED LABOR IN MODERATING WAGE SETTLEMENTS, DESPITE VERY HIGH LEVELS OF UNEMPLOYMENT, IS UNCERTAIN.

7. PUBLIC SECTOR COMPENSATION. THERE WAS AGREEMENT AMONG GOVERNMENTS ON THE NEED TO HOLD DOWN THE RATE OF INCREASE OF COMPENSATION FOR PUBLIC SECTOR EMPLOYEES. IT IS WIDELY BELIEVED THAT PUBLIC SECTOR WAGES WERE LEADING EDGE IN INFLATIONARY WAGE SETTLEMENTS IN RECENT YEARS. THE FEDERAL LIMITED OFFICIAL USE

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GOVERNMENT PROPOSED A SET OF "GUIDELINES" ACCORDING TO A NUMBER OF COMPLEX FACTORS FOR ESTABLISHING COMPERABILITY BETWEEN PUBLIC AND PRIVATE SECTOR WAGES. UNIONS ARE OPPOSED TO "RIGID" APPLICATION OF GUIDELINES. SUCH GUIDELINES WERE NOT ACCEPTED PER SE, BUT BROAD PRINCIPLE OF PUBLIC-PRIVATE SECTOR COMPERABILITY WAS ACCEPTED. IT WAS FURTHER AGREED TO EXCHANGE INFORMATION AMONG GOVERNMENTS ON COMPENSATION IN ORDER TO HELP AND ENCOURAGE EACH OTHER IN HOLDING THE LINE ON NEW SETTLEMENTS.

8. INSTITUTIONALIZATION OF SUMMITS. THERE WAS NO FORMAL AGREEMENT TO INSTITUTIONALIZE MEETINGS OF FIRST MINISTERS OR SET UP A MORE FORMAL CONSULTATIVE PROCESS AMONG THEM. DRAFT COMMUNIQUE LANGUAGE RE. FOLLOW-UP GROUPS WAS DELETED. HOWEVER, OFFICIALS INDICATE THAT IN FACT MUCH MORE CONSULTING BETWEEN FEDERAL AND PROVINCIAL GOVERNMENT ON HOST OF ISSUES IS NOW IN THE WORKS. THESE INCLUDE:

--- CONSTITUTIONAL CONFERENCE. PRIME MINISTER TRUDEAU ANNOUNCED AT HIS PRESS CONFERENCE AT THE END OF THE ECONOMIC SUMMIT THERE WILL BE A FIRST MINISTERS CONFERENCE ON "CONSTITUTIONAL QUESTIONS" IN SEPTEMBER. SCOPE OF MEETING IS NOT YET CLEAR AND MAY NOT YET HAVE BEEN DECIDED. ECONOMIC ADVISOR TO THE PRIME MINISTER SAID MEETING COULD DISCUSS DIVISION OF POWERS BETWEEN FEDERAL AND PROVINCIAL LEVELS, WHICH WOULD IMMEDIATELY GET INTO IMPORTANT ECONOMIC ISSUES, BUT WAS MORE LIKELY TO DISCUSS "REPATRIATION" (OF THE BRITISH NORTH AMERICA ACT) AND "TWO OR THREE OTHER BIG ISSUES." WE BELIEVE THESE ISSUES RELATE TO TRUDEAU'S INTEREST IN "PROVINCIALIZING" THE SENATE AND THE SUPREME COURT AND IN LANGUAGE GUARANTEES.

--- NEXT ECONOMIC SUMMIT IN NOVEMBER. IT WAS AGREED THERE  
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WILL BE A FOLLOW-ON ECONOMIC SUMMIT IN NOVEMBER TO ASSESS  
PROGRESS ON QUESTIONS RAISED AT RECENT MEETING. IT MAY ALSO  
ADDRESS ECONOMIC ASPECTS OF CONSTITUTIONAL ISSUES NOT RAISED  
AT SEPTEMBER CONSTITUTIONAL CONFERENCE. SUMMIT WILL BE  
PRECEDED BY MEETING OF FEDERAL AND PROVINCIAL FINANCE MINIS-  
TERS, POSSIBLY IN OCTOBER.

--- SECTORAL STUDIES. TASK FORCES STUDYING 23 INDIVIDUAL  
SECTORS WILL CONTINUE THEIR WORK, REPORT TO A GROUP AS YET  
TO BE DEFINED TO "FILTER" THEIR REPORTS, AND THEN REPORT  
TO THE NEXT ECONOMIC SUMMIT SCHEDULED FOR NOVEMBER.

9. FINANCIAL ISSUES. A NUMBER OF ISSUES RELATED TO MONE-  
TARY POLICY AND FOREIGN BORROWING WERE DISCUSSED:

--- MONETARY POLICY. SOME PREMIERS SAID THEY WANTED CONSUL-  
TATIONS WITH THE BANK OF CANADA PRIOR TO CHANGES IN MONE-  
TARY POLICY. THEY BACKED DOWN WHEN THE PRIME MINISTER  
POINTED OUT THAT BANK DOES NOT (NECESSARILY) CONSULT WITH  
HIM OR CABINET. THEY AGREED THAT BANK GOVERNOR WOULD BE  
ASKED TO "INFORM" THE PREMIERS ANNUALLY ON THE COURSE OF  
MONETARY POLICY.

--- INTEREST RATES AND THE BANKING SYSTEM. THERE HAS LONG  
BEEN CONCERN IN BOTH EASTERN AND WESTERN CANADA THAT A LEVEL  
OF INTEREST RATES THAT MAY BE APPROPRIATE FOR ONTARIO IS  
NOT APPROPRIATE ELSEWHERE IN CANADA. PREMIER BLAKENEY OF  
SASKATCHEWAN NOTED THE DIFFERENT IMPACT OF THE SAME RATE IN  
DIFFERENT PARTS OF CANADA. QUEBEC HAS RAISED THE SAME  
ISSUE IN THE PAST. BEHIND THIS IS BELIEF THAT NOT ONLY  
IS MONETARY POLICY DIRECTED PRIMARILY AT OPTIMIZING CONDI-  
TIONS IN ONTARIO, BUT THAT THE BANKING SYSTEM AS PRESENTLY  
CONSTITUTED CATERES TO THE NEEDS OF INDUSTRIES AND HEAD  
OFFICES IN ONTARIO AND GIVES ONLY MARGINAL SERVICE TO REMOTE  
PARTS OF THE COUNTRY AND THE GROWING NEEDS OF THE WEST.

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TRUDEAU POINTED OUT THAT WHILE THERE CAN BE AND IS SOME REGIONAL DIFFERENTIATION ON FISCAL POLICY (EQUALIZATION PAYMENTS, DIFFERENT TAX INCENTIVES FOR INVESTMENT IN REGIONS), IT IS NEARLY IMPOSSIBLE TO HAVE DIFFERENT MONETARY CONDITIONS IN DIFFERENT PARTS OF THE COUNTRY BECAUSE OF ARBITRAGE. HOWEVER, FEDERAL OFFICIALS SAID PREMIERS REMAIN CONCERNED WITH THE ISSUE AND WILL PROBABLY RETURN TO IT IN FUTURE.

--- BORROWING REQUIREMENTS. SOME PREMIERS WANTED INFORMATION EXCHANGE AMONG GOVERNMENTS ON BORROWING PLANS IN BOTH DOMESTIC AND FOREIGN CAPITAL MARKETS IN ORDER TO BETTER FORMULATE THEIR OWN PLANS. SOME OF THIS INFORMATION IS EXCHANGED AT ANNUAL MEETING OF FINANCE MINISTERS AND WILL NOW BE EXCHANGED TWICE A YEAR.

--- BUNCHING OF MAJOR INVESTMENTS. THERE WAS FEDERAL CONCERN ABOUT WHAT COULD BE DONE ABOUT THE BUNCHING OF MAJOR INVESTMENT PROJECTS, SUCH AS THOSE RELATED TO ENERGY  
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AND TRANSPORTATION DISCUSSED AT THE ECONOMIC SUMMIT, SO AS TO AVOID SEVERE INVESTMENT CYCLES AND OVERLOADING CAPITAL MARKETS. NO AGREEMENT WAS REACHED, HOWEVER, ON ANY SCHEDULING OR QUEUEING OF SUCH PROJECTS.

10. COMMENT. SUMMIT REPRESENTS ANOTHER STEP BY GOC IN GROUPING TOWARDS POLICIES TO DEAL MORE EFFECTIVELY WITH CHRONIC INFLATION, SLOW GROWTH, AND INSUFFICIENT RATES OF INVESTMENT, COMPOUNDED FOR CANADA BY REGIONAL DIFFERENCES AND RIVALRIES. CLOSER CONSULTATIONS BETWEEN LEVELS OF GOVERNMENT AND BETTER EDUCATION OF PUBLIC -- AND POLITICIANS -- AIMED FOR IN SUMMIT WILL NOT HURT AND MAY WELL

HELP THIS PROCESS. FRUITS OF EXERCISE, HOWEVER, WILL TAKE  
TIME TO RIPEN, AND SIZE OF HARVEST REMAINS IN QUESTION.  
ENDERS

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## Message Attributes

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